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Central Intelligence Agency

Washington, D.C. 20505

DDI- 03932-86

7 OCT 1986

The Honorable Richard B. Cheney
House of Representatives
Washington, D.C. 20515

Dear Mr. Cheney:

Enclosed are two memoranda that address the questions you raised regarding the political and economic stability of South Africa during my briefing of HPSCI on 30 September. These short papers update information presented in two estimates published in 1985 and 1984--[redacted] 25X1 25X1

[redacted] Tom Latimer of the HPSCI Staff is holding copies of these estimates for you. In addition, you may be interested in a recent estimate that deals with prospects for the ANC [redacted] 25X1 25X1

[redacted] Again, the HPSCI Staff is holding a copy of this for you. [redacted] 25X1 25X1

As always, we stand ready to answer any other questions you may have. [redacted] 25X1

Sincerely,

John L Helgerson
Associate Deputy Director for Intelligence

[redacted] 25X1

cc: Congressman Hamilton

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The Honorable Richard B. Cheney

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2 October 1986

MEMORANDUM

SUBJECT: South Africa: Sanctions Vulnerability and Regime Stability

Vulnerability to Sanctions

1. In our judgment, South Africa is capable of weathering even comprehensive economic sanctions for several years, but at a serious cost to economic growth. 25X1

-- We believe the country can meet its basic needs in food, clothing, housing and medical care for an indefinite period. Stockpiles of food and important raw materials could keep the economy producing at near present levels, albeit with some disruptions. 25X1

2. Over the past 25 years South Africa has prepared for the implementation of economic sanctions by engaging in a program of import substitution and stockpiling designed in part to minimize the impact of an import cutoff of 3 to 4 years duration. 25X1

-- Pretoria has built and maintained substantial nonmilitary strategic stockpiles and accumulated a strategic oil reserve which would last more than three years -- even longer if rationed. 25X1

-- South Africa has employed subterfuge trade successfully to circumvent previous embargoes and has already made extensive preparations to overcome present and anticipated trade sanctions. 25X1

-- Over 90 percent of fixed investment is domestically held, limiting the potential impact of foreign disinvestment. 25X1

3. Nevertheless, Pretoria is not invulnerable to sanctions. Among its major vulnerabilities are:

-- A narrow export base (gold and diamonds account for nearly 60 percent of export revenues) makes South Africa vulnerable to a cutoff of foreign markets. Coal exports have grown substantially in recent years and now account for 10 percent or more of export earnings. 25X1

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-- South Africa relies heavily on imported capital goods, including almost all of its computers and other sophisticated electronic devices. 25X1

-- The domestic chemical industry is unable to produce many of the essential catalysts and compounds used in mining and agriculture. 25X1

4. On balance, Pretoria's actions -- import substitution, strategic stockpiling and experience in circumventing other embargoes -- will allow it to keep the economy running at near current levels in the short run in the face of sanctions. The impact will be greater over the long term, however. 25X1

-- Long term growth will suffer as resources are diverted toward production of embargoed goods that South Africa cannot produce efficiently. 25X1

-- Temporary disruption of export revenues could endanger the debt rescheduling agreement reached in March. 25X1

-- Black unemployment will rise even faster as economic growth will be far below the 5 percent that academic studies estimate is needed merely to employ new entrants to the workforce. 25X1

Regime Stability

5. We believe that over the next five years Pretoria's economic, political and military resources are sufficient to avert the collapse of the white regime. However, a difficult period lies ahead. Black townships will remain tinderboxes, the white rightwing will be restive, and South Africa's beleaguered economy will grapple with economic sanctions. 25X1

-- Although sanctions and domestic unrest are likely to have only a limited immediate impact on economic performance, they damage investor confidence, encourage capital flight, slow growth, and shake white resolve. While the threat of a white backlash from the right cannot be discounted, we believe President Botha has and is already demonstrating the political skill and support to blunt the challenge from those whites who oppose even those reforms enacted so far, and to exploit sanctions by tapping white xenophobia over international interference. 25X1

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-- Sanctions will exacerbate the socioeconomic pressures -- especially unemployment -- that are among the fundamental causes of black unrest. Together with heightened political consciousness these will sustain a climate conducive to episodes of violent protest. However, Pretoria's massive internal security apparatus will continue to be able to contain most violence in the black townships while President Botha forges ahead with his own limited vision of reform. [redacted] 25X1

6. Overall, the government probably will rely more on its security resources than its reform initiatives to protect its stability, especially in the short term. We must also acknowledge that internal and external variables beyond the capacity of Pretoria to control -- and difficult to predict -- might fundamentally change black and white attitudes, setting in motion events such as more determined black resistance or collapse of white morale that would seriously threaten the regime. [redacted] 25X1

[redacted] 25X1

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2 October 1986

MEMORANDUM

SUBJECT: Southern Africa: Economic Vulnerabilities

1. South Africa dominates a regional economic network that provides significant economic benefits to all of its neighbors except Angola. Pretoria has made clear that it will not hesitate to use its economic muscle to retaliate against neighboring black countries should economic sanctions be imposed against South Africa by the West. In our judgment, the threat is credible and would cause considerable economic dislocation and hardship on regional economies while having only a minor impact on South Africa's economy. Neighboring black states have no ready or economically feasible alternatives to their dependence on Pretoria, and almost certainly would turn to the West, particularly the US, for relief. 25X1

South African Regional Economic Leverage

2. South Africa and its neighbors have forged a network of regional economic ties that include transportation links, trade, investment, and a substantial flow of migrant labor. According to Embassy reporting, official publications and open source information:

-- South Africa has 75 percent of the region's rail network and the most efficient ports making transportation Pretoria's greatest source of economic leverage over its neighbors.

-- About 350,000 workers from the neighboring states are legally employed in South Africa. One estimate also indicates that between 700,000 and 1,000,000 illegal migrants work in South Africa. Remittances from these workers are estimated to support an additional 3 million people in neighboring countries. During 1984, official data showed that the 210,000 foreign black workers employed in South African mines directly and indirectly remitted over $500 million to their countries of origin through savings programs run by the mining companies.

-- Most southern African states rely on South Africa for chemicals, petroleum, machinery, finished consumer goods, grain and other foods, although trade has declined recently.

-- South Africans own the bulk of foreign investment in Botswana, Lesotho, and Swaziland, some one-third of direct foreign investment in Zimbabwe and a major share of Zambia's copper mining. In recent years, however, actions by the neighboring states to cut

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business ties have forced South African companies to divest some of their regional holdings. 25X1

South African Regional Economic Vulnerability

3. Based on South African and IMF data we estimate that Pretoria earns about $1.2 billion in foreign exchange from trade and other economic ties to neighboring countries. In our judgment, Pretoria could absorb the cost of selective economic retaliation with relatively little cost to itself.

-- South Africa would lose more than $100 million in revenue if it cut off regional rail service, but Pretoria would not be substantially affected by selective, self-imposed embargoes.

-- Although foreign workers make up nearly 40-percent of the mining workforce the dismissal of selected workers would cause only short term disruptions. From Pretoria's perspective, high unemployment throughout the region would by and large prevent any serious long-term labor shortages. 25X1

Neighboring States Vulnerabilities

4. A review of trade and financial statistics shows that all neighboring states, except Angola, are vulnerable to South African economic retaliation.

Botswana

-- All petroleum products used in Botswana come via South Africa and most are refined there.

-- Nearly 19,000 Botswana miners are employed in South African mines and another 7,000 are legally employed in other sectors. An estimated 20,000 live and work illegally in South Africa.

-- About three-quarters of the grain and 80 percent of the fruits and vegetables consumed are imported from South Africa.

-- Receipts from the South African controlled Southern African Customs Union (SACU) account for over 20 percent of government revenues.

Lesotho

-- Over 95 percent of imports originate in South Africa and all exports are either sold to or must be transshipped through South Africa.

-- Remittances from the nearly 110,000 Basotho employed

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in South Africa account for about 50 percent of GDP.

-- The Electricity Supply Commission of South Africa (ESCOM) supplies 100 percent of Lesotho's electricity.

-- Receipts from the South African Customs Union (SACU) account for 70 percent of government revenues.

Malawi

-- Nearly 95 percent of Malawi's petroleum comes from South Africa.

-- Some 35,000 Malawians work in South Africa and provide the government with about $12 million in foreign exchange annually.

-- Nearly 40 percent of total imports come from South Africa while 6 percent of total exports go to SA.

Mozambique

-- More than 60,000 miners and 90,000 other Mozambicans work legally in South Africa and provide $50 million in foreign exchange earnings.

-- ESCOM provides 60 percent of Maputo's electricity.

Swaziland

-- Revenue from the Southern African Customs Union (SACU) account for over 60 percent of government revenues.

-- More than 13,000 Swazi miners work in South Africa.

-- South African firms own and operate major Swazi farms and tourist companies.

Zaire

-- More than 40 percent of the minerals exported in 1985 were shipped through South Africa.

-- Three-fourths of the food, petroleum, and chemicals used by Zairian mines and mills are imported through South Africa.

Zambia

-- Zambia's Ndola refinery receives some feedstock from South Africa.

-- Nearly half of Zambia's mineral exports are shipped by South African railway.

Zimbabwe

-- About 90 percent of Zimbabwe's export and import traffic utilizes the South African transport system.

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-- South Africa is Zimbabwe's largest trading partner accounting for 20 percent of total trade.

-- About 70 percent of Zimbabwe's manufactured exports go to South Africa. 25X1

Pretoria's Likely Moves

5. Past actions and public statements point to the fact that Pretoria recognizes the value of maintaining and even expanding its regional economic relations. In the past the government has used its economic leverage cautiously. In the event of new Western sanctions, we believe Pretoria initially would take a measured response designed to showcase its regional economic muscle and indicate to the West the cost of sanctions to the region.

-- We believe that Pretoria first would expel selected foreign workers or disrupt selected rail links. At the same time the government likely would threaten to respond in kind to further Western economic actions.

-- It is also possible that Pretoria will chose to engage in a campaign of economic sabotage -- perhaps to reinforce existing vulnerabilities, for example by attacking Zimbabwe's oil routes through Mozambique, or to strike at Angola where its leverage is limited. 25X1

Neighboring Countries Options

6. In our judgment, neighboring African countries have no realistic short-term options for lessening their economic dependence on South Africa or developing economically feasible alternative routes for their imports and exports. Faced with a South African squeeze, these nations almost certainly would turn to the West, and particularly the US, for relief.

-- Alternate transportation routes through Angola, Mozambique and Tanzania are incapable of handling substantial additional traffic because of insurgency, poor maintenance, and operating problems.

-- Few alternatives exist for the crude oil and refined petroleum imported from or transported through South Africa. Oil can be shipped from Dar es Salaam via the Tazara pipeline but at a substantially higher cost. Angloan crude oil, for example, is too heavy for the region's other refineries and the Beira-Mutare pipeline through Mozambique has been sabotaged repeatedly.

-- The South African Development Coordination Conference (SADCC) formed in 1980 by nine southern and eastern African nations with the

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goal of reducing economic dependence on South Africa and promoting greater regional economic integration is further than ever from achieving these goals, in our view. Poor economic policy choices, drought, and low world prices for the region's major commodity exports have combined in fact to boost economic dependence on South Africa, Western donors, and policy advice from organizations such as the IMF. 25X1

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